

# DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

THE DIRECT MARKETING ASSOCIATION'S MOTION  
TO COMPEL RESPONSE OF THE UNITED STATES  
POSTAL SERVICE TO INTERROGATORY DMA/USPS-11  
(December 22, 1997)

Pursuant to sections 21(a) and 25(d) of the Rules of Practice and Special Rule of Practice 2.B., the Direct Marketing Association hereby requests an order from the Postal Rate Commission compelling the United States Postal Service to respond to interrogatory DMA/USPS-11.

Statement of Facts

On November 25, 1997, the Direct Marketing Association ("DMA") filed an interrogatory and request for production of documents under Special Rule of Practice 2.E. (DMA/USPS-11) (copy attached as Exhibit 1). This interrogatory requested information concerning a recent Postal Service study comparing wage rates between Postal Service employees and those in the private sector doing similar work. The study is reported to show that "nonexempt postal employees were paid from 30 to 60 percent higher wages" than their private sector counterparts. The interrogatory further asked whether "the Postal Service [was] taking any actions to better align wages for nonexempt employees with private sector wages for employees performing similar work." DMA/USPS-11(c). On December 10, 1997, the Postal Service filed an objection to

this interrogatory (copy attached as Exhibit 2), one day late, arguing that comparable private sector compensation levels were "irrelevant" to the issues in this case. DMA respectfully submits that the information sought is reasonably calculated to lead to admissible evidence, can only be obtained from the Postal Service, and requests that the Commission compel the Postal Service to provide a response to this interrogatory.

#### Argument

The Postal Reorganization Act ("the Act") requires that the Postal Service operate in an economically efficient manner. "The Postal Service shall . . . provide adequate and efficient postal services at fair and reasonable rates". 39 U.S.C. § 403(a). Inherent in this statutory obligation to operate efficiently is the requirement that operating costs -- including labor costs -- be reasonable and minimized to the extent possible. Indeed, the Act was enacted, in part, to provide a mechanism for the Postal Service to better control the costs of the postal system. See National Association of Greeting Card Publishers v. U.S. Postal Service, 607 F.2d 392, 430 and n.92 (D.C. Cir. 1979), cert. denied, 444 U.S. 1025 (1980).

The responsibility for operating the Postal Service as efficiently as possible, in compliance with Section 403(a), rests with Postal Service management. DMA acknowledges that the Commission does not have the authority to intrude in

postal management decisions. See Newsweek, Inc. v. U.S. Postal Service, 663 F.2d 1186, 1203-05 (2d Cir. 1981), aff'd sub nom. Nat. Ass'n of Greeting Card Pub. v. U.S. Postal Service, 462 U.S. 810 (1983). However, the Commission does have the responsibility of recommending postal rates based on the "break-even requirement" in 39 U.S.C. § 3621,<sup>1/</sup> which requires that the Commission evaluate the Postal Service's estimates of the costs to be incurred in the test year to determine if the revenue requirement is supported by substantial evidence. See R94-1 Opinion and Recommended Decision ("R94-1 Rec. Dec."), at ¶¶ 2021-22. This process requires, in turn, that the Commission assure that cost change factors, such as the cost level or workyear mix adjustment, that are utilized in the rollforward program are as accurate as possible and are supported by sufficient evidence. Id. If not, the Commission may adjust the rollforward factors or other relevant data (such as the use of actual interim year figures) utilized in the test year revenue requirement if necessary. See R94-1 Rec. Dec., at ¶¶ 2023-27.

The Postal Service's rollforward model in this case reflects Postal Service's programs, such as cost reduction or other programs, designed to save costs and increase

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<sup>1/</sup> This section provides that "[p]ostal rates and fees shall be reasonable and equitable and sufficient to enable the Postal Service under honest, efficient, and economical management to maintain and continue the development of postal services . . . ."

efficiency. See Direct Testimony of Postal Service witness Tayman (USPS-T-9) at 13-14; LR-H-12; LR-H-10. To determine whether the Postal Service's estimates of the savings from such programs and, therefore, of the Postal Service's future productivity are reasonable, it is at least relevant to compare them with similar data from the private sector. Contrasting wage differentials between the Postal Service and the private sector will assist the Commission in determining the reasonableness of postal productivity estimates since a major component of a productivity evaluation is labor productivity and related labor costs. Comparison between Postal Service wage levels and similar data from the private sector will improve analyses by intervenors and the Commission of the reasonableness of the Postal Service's rollforward program, productivity estimates and the resulting test year revenue requirement.

DMA is not arguing that the factors contained in the requested study should be substituted for the factors used by Postal Service management in negotiating employee salary levels nor that the study or its supporting data necessarily should be admitted into evidence in this case. DMA does submit, however, that the study may shed important light on the Postal Service's revenue requirement testimony and may lead to the discovery of admissible evidence. Therefore, under the standards governing relevant evidence in Rules of Practice 25 and 26, the wage comparability study and the

related information requested in DMA/USPS-11 should be produced.<sup>2/</sup>

Conclusion

For the foregoing reasons, DMA respectfully requests that the Postal Service's objection to interrogatory DMA/USPS-11 be overruled and that the Postal Service be directed to produce the information and documents requested.

Respectfully submitted,



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Dated: December 22, 1997

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<sup>2/</sup> During the October 21, 1997 oral hearing before the Commission, Chairman Gleiman permitted questioning of Postal Service witness Degen - over a Postal Service objection -- concerning productivity figures for the Postal Service, including a comparison to a private sector industry. See Tr. 12/6647-6655.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Commissioner's Rules of Practice, as modified by the Special Rules of Practice.

  
\_\_\_\_\_  
Michael D. Bergman

Dated: December 22, 1997

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997  
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Docket No. R97-1

THE DIRECT MARKETING ASSOCIATION, INC.'S INTERROGATORY AND  
REQUEST FOR PRODUCTION OF DOCUMENTS TO THE UNITED STATES POSTAL  
SERVICE PURSUANT TO SPECIAL RULE OF PRACTICE 2.E.  
(DMA/USPS-11)

Pursuant to Sections 25 and 26 of the Commission's Rules of Practice, and Rule 2.E. of the Commission's Special Rules of Practice, the Direct Marketing Association, Inc. hereby submits the attached interrogatory and request for production of documents to the United States Postal Service (DMA/USPS-11).

Respectfully submitted,



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Association, Inc.

November 25, 1997

DMA/USPS-11. Please refer to New Performance-Based Compensation System, AMMA Bulletin, No. 45-97 (Advertising Mail Marketing Association, Washington, D.C.), October 17, 1997, at 4 (Attachment 1) which states, "A postal official said that in large part, this determination [that nonexempt employees were not eligible to receive bonuses under a special compensation program] was based on the results of a wage comparability study done recently for the Postal Service in which the wages of postal employees were compared to wages for employees doing similar work in the private sector. The official said that the results of the study showed that nonexempt postal employees were paid from 30 to 60 percent higher wages compared to employees doing similar work in the private sector."

- a. Please confirm that a recent study of Postal Service wages for nonexempt postal employees found that Postal Service nonexempt wages were between 30 to 60 percent higher than private sector employees performing similar work. If not confirmed, please explain fully.
- b. Please summarize the methodology and results of the wage comparability study and provide a copy of the study.
- c. Is the Postal Service taking any actions to better align wages for nonexempt employees with private sector wages for employees performing similar work? If so, please describe the actions. If not, why not?

#### CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Rule 12 (section 3001.12) of the Postal Rate Commission's Rules of Practice and Procedure and Rule 3 of the Commission's Special Rules of Practice in this proceeding.

  
Michael D. Bergman

November 25, 1997



# BULLETIN BULLETIN

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AMMA BULLETIN 45-97

OCTOBER 17, 1997

## HIGHLIGHTS.....

- ..... **LABOR-MANAGEMENT PROBLEMS PERSIST WITHIN USPS**—The General Accounting Office (GAO) has once again issued a report on the state of affairs that exists between U.S. Postal Service (USPS) management and workers. GAO reviewed the Postal Service's efforts to improve employee working conditions as well as its overall performance and found little progress had been made in problems between workers and managers. It said that problems stemmed in part from "autocratic management styles, the sometimes adversarial attitudes of employees, unions, and management, and an inappropriate and inadequate performance management system. It noted that these problems have had a deleterious effect on the productivity of the Postal Service. And it's probably not going to change soon given that the USPS, the four major labor unions, and the three management associations, according to GAO, can't even agree on "common approaches for addressing the problems." This lack of mutually agreed upon objectives has left the U.S. Postal Service on its own to try and implement systems to improve the rapport between the USPS, its managers, and its unionized career workforce.
- ..... **POSTAL NOTES**—News affecting the mailing industry including Bulk Parcel Return Service/Shipper Paid Forwarding standards issued by the Postal Service. Pitney Bowes sues the Postal Service. AMMA introduces new MTAC update area on the Internet. United Parcel Service concerned over FedEx acquisition. USPS awards contract to C-Phone. Stressed transport system could impede mail and parcel delivery. Equipment shortages may be plaguing USPS delivery.
- ..... **CYBERMEDIA WATCH**—A look at the burgeoning electronic communications industry including the unveiling of equipment allowing businesses to print stamps directly on letters via the Internet. Postal administrations deliberate on the future of mail. Target marketing to become Internet advertising standard. Cable boosts capability as a targeted marketing vehicle. Western Union enters e-commerce fray. Canada Post unveils track and trace capabilities.
- ..... **OVER THERE...INTERNATIONAL POSTAL NEWS**—News of postal goings-on around the world including Brazil wipes postal management slate clean. Morocco looks to privatize. Germany's parliament considers postal liberalization.
- ..... **POSTAL PREVIEWS**—A list of upcoming postal-related events.

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Association (Rural Carriers) representing 47,738. The majority of USPS employees, or 660,483 individuals are represented by an employee or management association. The four employee unions also represent a total of 81,694 noncareer employees, including transitional employees and substitutes for rural carriers.

Postal Service supervisors, postmasters, and other managerial nonbargaining personnel are represented by three management associations, including (1) the National Association of Postal Supervisors (NAPS), (2) the National Association of Postmasters of the United States (NAPUS), and (3) the National League of Postmasters (the League). Unlike craft unions, management associations cannot bargain with postal management. NAPS represents all supervisors and lower level managers, except those at headquarters and area offices, for a total of about 35,000 employees as of the end of fiscal year 1996. Also, as of the end of fiscal year 1996, approximately 26,000 postmasters and installation heads were represented by NAPUS and the League.

**VIEW OF THE EMPLOYEES.** Generally, according to GAO, craft employees believed that managers and supervisors did not treat employees with respect or dignity and that the organization was insensitive to individual needs and concerns. GAO said that the concerns of supervisors and craft employees who worked in mail processing plants focused mainly on (1) the insensitive treatment of employees who were late or absent from work; (2) the lack of employee participation in decisions affecting their work; and (3) the perception that some employees were not held accountable for their performance, leading to perceptions of disparate treatment. Also, managers, supervisors, and craft employees expressed dissatisfaction with the Postal Service's performance management and recognition and reward systems because they generally believed that (1) performing their jobs well just got them more work, (2) high levels of performance were not adequately recognized or rewarded, and (3) poor performance was too often tolerated.

**PAST RECOMMENDATIONS.** In its 1994 report, GAO recommended a host of administrative reforms designed to improve labor-management relations, including having the Postal Service, the four unions, and three management associations "develop and sign a long-term framework agreement that would establish the overall objectives and approaches for demonstrating improvements in the workplace climate; improve the workplace environment by training supervisors to promote teamwork, recognize and reward good performance, and deal effectively with poor performers; and by training employees in team participation efforts that are focused on serving the customer through the continuous improvement of unit operations; establish employee incentives by recognizing and rewarding employees and work units on the basis of performance; improve mail processing and delivery operations by testing various approaches for improving working relations, operations, and service quality and evaluating the results of such tests."

GAO found that various actions had been taken to implement all 10 initiatives that it had suggested in its 1994 report. However, it said that it was difficult to determine what results, if any, were achieved from 3 of the 10 initiatives primarily because the initiatives were only recently piloted or implemented. Also, for 5 of the 10 initiatives, disagreements among the involved participants on approaches for implementation generally prevented full implementation of these initiatives and full evaluation of their results. In addition, although results were available for 2 of the 10 initiatives, these initiatives were eventually discontinued, primarily because the USPS and the other involved participants disagreed over how best to use the initiatives to help improve the postal workplace environment.

**ASSOCIATE SUPERVISOR PROGRAM.** GAO recommended that the Postal Service select and train supervisors who could serve as facilitator/counselors and who would have the skills, experience, and interest to treat employees with respect and dignity, positively motivate employees, recognize and reward them for good work, promote teamwork, and deal effectively with poor performers. In an attempt to address this recommendation, it established the Associate Supervisor Program (ASP), a 16-week supervisory training program designed to ensure that candidates for postal supervisory positions are sufficiently screened and trained to work well with employees. A test of ASP was completed in the St. Louis district office in the fall of 1994, after which the test was expanded to include a total of 10 pilot sites. According to postal officials, as of March 1997, about 254 candidates had completed ASP training. Most of these candidates have already been assigned to supervisory positions in various postal locations. It expects that by the end of fiscal year 1997, 70 of the its 85 postal district offices will have graduated ASP classes or will have classes ongoing. GAO was told by various postal, union, and management association officials that although they believed it was too soon to evaluate the results of the program, they believed it had the potential for providing the USPS with more qualified and better trained supervisors.

**NEW PERFORMANCE-BASED COMPENSATION SYSTEM.** GAO had admonished the USPS' performance-based incentive systems for managers and supervisors in 1994. The problems concerned a system that emphasized providing these employees with merit pay and promotions for achieving a variety of productivity and budget goals. Examples of such goals included requiring supervisors to manage their assigned budgets and control unscheduled employee absences and overtime usage. However, GAO found that some supervisors emphasized "making their numbers" over maintaining good employee relations.

To help address these problems, GAO recommended in 1994 that the Postal Service should provide incentives that would encourage all employees in work units to share in the tasks necessary for success and that would allow work units and employees to be recognized and rewarded primarily on the basis of corporate and unit performance. To address this recommendation, it established a revised compensation system in 1995 for employees under the Postal and Career Executive Service (PCES). Later, in 1996, the system was expanded to cover the Executive and Administrative Schedule (EAS), which includes executives, managers, and supervisors. The purpose of this system is to establish a performance-based incentive system of pay increases and bonuses that would appropriately recognize and reward employees for good performance. The amounts of such increases and bonuses are based not only on the individual's performance rating but also on the performance of the individual's work unit, as well as the performance of the Postal Service as an organization.

A key aspect of the revised compensation system is called the Economic Value Added (EVA) variable pay program, which is a program intended to provide employees covered by the new compensation system with bonuses based on specific performance measurements, such as the financial performance of the USPS and levels of customer satisfaction. Under EVA, in fiscal year 1996, the Postal Service distributed a total of \$169 million in bonuses to a total of about 63,000 postal executives, managers, supervisors, postmasters, and other higher level nonbargaining unit employees. Nationally, the average bonus paid to an executive under PCES amounted to \$12,500. Postmasters covered by the new compensation system and higher level professionals, administrative, and technical employees each received a bonus that averaged \$3,900.

Another important aspect of the new compensation system was the inclusion of work unit and corporate measurements in EAS employees' merit performance evaluations. For fiscal year 1997, these evaluations are required to include objectives that are aligned with an individual employee's work unit goals.

GAO said that according to NAPUS and League officials, the USPS determined that certain employees who were covered by the requirements of the Fair Labor Standards Act (FLSA), also known as nonexempt employees, should not be eligible to receive EVA bonuses. NAPUS and League officials mentioned that the USPS' decision eliminated about 60 percent of the employees represented by their associations because they were nonexempt employees. A postal official said that in large part, this determination was based on the results of a wage comparability study done recently for the Postal Service in which the wages of postal employees were compared to wages for employees doing similar work in the private sector. The official said that the results of the study showed that nonexempt postal employees were paid from 30 to 60 percent higher wages compared to employees doing similar work in the private sector. Also, the official told GAO that nonexempt employees in private sector organizations with incentive pay programs are generally not eligible to participate in such programs.

**CUSTOMERPERFECT!** In February 1995, the Postal Service implemented CustomerPerfect!, which has been described by the Vice President for Quality as a "management system being constructed and operated by the Postal Service as a vehicle for constructive change." He told GAO that CustomerPerfect! is designed to assess and, where necessary, improve all aspects of Postal Service operations so that it can better provide postal products and services to its customers in a competitive environment.

Postal officials told GAO that these pilots consisted primarily of implementing what the USPS called process management—a systematic approach to continuously assessing, evaluating, and improving the design and management of core work processes, including those that facilitate the processing and delivery of mail products and services to postal customers. A key aspect of this approach involves the collection and use of various service and financial performance data, such as EXFC, EVA, and data on safety in the workplace. The USPS plans to expand the process management aspect of CustomerPerfect! to all 35 postal performance clusters in fiscal year 1997.

GAO said that CustomerPerfect! was not specifically designed to address labor-management relations problems. However, the USPS believes it provides an opportunity for management and craft employees to work together on problem-solving teams to improve how it accomplishes its overall mission.

In their comments, the Rural Carriers union and the League of Postmasters provided GAO their insights on CustomerPerfect! The president of the Rural Carriers union told GAO that he supported this initiative in concept and that many of his union members have been involved in CustomerPerfect! process management activities. The League commented that because Postal Service goals have been established for each performance cluster, a postal installation that achieves or exceeds its goals will more than likely not receive any recognition for such performance if it is included in a cluster with other installations that have not achieved their goals. The League told GAO that this situation is not a good one for providing employees incentives nor is it good for morale, customer service, or the Postal Service.

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

OBJECTION OF UNITED STATES POSTAL SERVICE  
TO INTERROGATORY DMA/USPS-11  
AND MOTION FOR LATE ACCEPTANCE THEREOF

The United States Postal Service hereby objects to interrogatory DMA/USPS-11, filed on November 25, 1997, and moves for late acceptance of this objection. Delay in addressing this interrogatory was caused by the temporary absence of personnel familiar with the matter requested therein.

The interrogatory seeks information relating to, and a copy of, a study comparing the compensation of nonbargaining, nonexempt postal employees with private sector compensation. Such information has no relevance to the issues in this case. Test year costs are estimated based on actual Postal Service compensation levels and any anticipated changes in those levels. Private sector compensation levels and the difference between those and the Postal Service's provide no useful information in evaluating the costs estimated in this proceeding.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Rate-making

  
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Scott L. Reiter

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December 10, 1997

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in cursive script, appearing to read "S. Reiter", written over a horizontal line.

Scott L. Reiter

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December 10, 1997